99TH CONGRESS
1st Session

SENATE

REPORT
99-1

OVERSIGHT ACTIVITIES

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

A REPORT

FILED PURSUANT TO PARAGRAPH 8(b) OF RULE XXVI OF THE STANDING RULES OF THE SENATE

JANUARY 24 (legislative day, JANUARY 21), 1985.—Ordered to be printed

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COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

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*Served on Committee during the 98th Congress, 1st session.
**Replaced Senator Hawkins at the start of the 98th Congress, 2d session.

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC, March 31, 1985.

Hon. GEORGE BUSH,
President of the U.S. Senate,
Washington, DC.

DEAR MR. PRESIDENT: Paragraph 8(b) of Rule XXVI of the Standing Rules of the Senate requires each standing committee of the Senate (with the exception of the Committees on Appropriations and the Budget) to file a report of its oversight activities during the 98th Congress not later than March 31, 1985.

Pursuant to that obligation, I am herewith submitting to you a report of those oversight activities of the Committee on Banking, Housing, and Urban Affairs during the 98th Congress.

Sincerely yours,

JAKE GARN, *Chairman.*

JURISDICTION OF THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DURING THE 98TH CONGRESS

[Extract from Rule XXV of the Standing Rules of the U.S. Senate]

STANDING COMMITTEES

1. The following standing committees shall be appointed at the commencement of each Congress, and shall continue and have the power to act until their successors are appointed, with leave to report by bill or otherwise on matters within their respective jurisdictions:

* * * * * * *

(d)(1) Committee on Banking, Housing, and Urban Affairs, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

1. Banks, banking, and financial institutions.
2. Control of prices of commodities, rents, and services.
3. Deposit insurance.
4. Economic stabilization and defense production.
5. Export and foreign trade promotion.
6. Export controls.
7. Federal monetary policy, including Federal Reserve System.
8. Financial aid to commerce and industry.
9. Issuance and redemption of notes.
10. Money and credit, including currency and coinage.
11. Nursing home construction.
12. Public and private housing (including veterans' housing).
13. Renegotiation of Government contracts.
14. Urban development and urban mass transit.

(2) Such committee shall also study and review, on a comprehensive basis, matters relating to international economic policy as it affects United States monetary affairs, credit, and financial institutions; economic growth, urban affairs, and credit, and report thereon from time to time.

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OVERSIGHT ACTIVITIES

JANUARY 24 (legislative day, JANUARY 21), 1985.—Ordered to be printed

Mr. DOLE (for Mr. GARN), from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

OVERSIGHT ACTIVITIES

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Summary of Activities Originating in the Committee

EXPORT ADMINISTRATION ACT

At the start of the 98th Congress the Senate Banking Committee held its first hearing on February 3, 1983, to discuss the Commerce Department's fulfillment of its responsibilities under the Export Administration Act of 1979. In view of the September 30, 1983, expiration date for the act the Committee felt that debate should begin early to give adequate attention to the problems that have become apparent in the years since the act was last authorized.

The Export Administration Act of 1979 is the central export control legislation, authorizing the President to control exports for important national security, foreign policy, and short supply purposes. Criticism has focused both on the failure of our export control system to achieve those goals and the unnecessary burdens that it has placed on American exporters.

Congressional dissatisfaction with the Commerce Department's conduct of export administration, both licensing and enforcement, led to a proposal that was first introduced in the 96th Congress by Senator Garn to remove the primary export administration functions from the Commerce Department and place them in an independent Federal agency called the Office of Strategic Trade. The oversight hearing coincided with the reintroduction of the bill, under the sponsorship of the chairman and ranking minority

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member of the Committee and 16 other members (including four other members of the Committee: Senators Tower, Armstrong, Trible, and Mattingly).

The hearing focused on the shortcomings in our export controls, receiving testimony from Senators Cohen and Nunn (who had participated in hearings in the Governmental Affairs Committee that were critical of the export control enforcement activities of the Commerce Department); Under Secretary of Commerce for International Trade, Lionel Olmer; Commissioner of U.S. Customs, William Von Raab; Theodore L. Thau (a former senior official of the Office of Export Administration); and the Inspector General of the Commerce Department, Sherman Funk (whose office had issued a report critical of the Commerce Department's export control enforcement activities).

The shortcomings in our export control system highlighted during the hearing played a major role in the Committee's legislative deliberations on renewal of the Export Administration Act. Several key elements of the bill later reported by the Committee were designed to address those serious problems.

STATUS OF THE HOUSING SECTOR

On February 14, 1983, the full Committee held an oversight hearing on the status of the housing sector to help in preparing for policy decisions such as whether or not to extend the mortgage bond program, to provide mortgage foreclosure assistance, and also to evaluate existing HUD and FHA programs.

The Committee invited a distinguished panel of witnesses from the Department of Housing and Urban Development, the Federal Home Loan Bank Board, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Mortgage Bankers Association, the Mutual Savings Bank Association, the Mortgage Insurance Companies of America, the U.S. League of Savings Institutions, the National Association of Homebuilders, the National Association of Realtors, and the American Federation of Labor/Congress of Industrial Organizations.

Recent signs of recovery, after almost 2 years of depression, due in large part to the drop in short- and long-term interest rates have finally surfaced. Sales of new and existing homes have increased. Related industries serving construction have reported an increase in activity. In mortgage finance, FHA applications reached record levels and conventional financing has accelerated. Hopes are high that this will continue but many continue to hold their breath, conscious that if in fact a recovery is occurring, it could be retarded or halted if interest rates again take an upward direction.

Even if interest rates rise again, the passage of the Garn-St Germain Depository Institutions Act has given new life to the housing industry with a number of sweeping reforms which provide a foundation for a revitalized and aggressive thrift industry to compete effectively as a lender in the deregulated financial market of the present and future.

CONDUCT OF MONETARY POLICY

Congressional review of economic policies, including monetary policy, is conducted on a coordinated basis pursuant to the Full Employment and Balanced Growth Act of 1978 (P.L. 95-523). The act requires the Federal Reserve to submit a monetary policy report to the Congress twice annually. The reports are to present a review of recent economic trends, a statement of objectives for growth of money and credit, and an assessment of the relationship of the growth objectives to economic goals set forth in the Economic Report of the President.

The Senate Banking Committee continued its oversight hearings on monetary policy for the calendar years 1983 and 1984. In the 98th Congress, the emphasis was on the relationship between the Federal Reserve's monetary policy objectives and the administration's economic recovery program.

Discussions were centered on:

1. The decline in interest rates;
2. Federal Reserve's money growth target ranges of M1 and M2 for 1985;
3. The U.S. economy's vigorous expansion with healthy growth in employment, real wages, and productivity;
4. The necessity of bringing the Federal budget deficit down; and
5. Trade and current account deficits.

The Committee continued its practice of inviting officials from the regulatory agencies and private economists to assist the members in their deliberations.

Activities during the 98th Congress included:

First Monetary Policy Report for 1983, hearings February 16, 18, and 22, 1983, Senate Report 98-31, March 22, 1983.

Second Monetary Policy Report for 1983, hearings July 21 and 28, 1983, Senate Report 98-227, September 15, 1983.

First Monetary Policy Report for 1984, hearings February 8 and 9, 1984, Senate Report 98-370, March 28, 1984.

Second Monetary Policy Report for 1984, hearings July 25 and 31, 1984, Senate Report 98-654, October 2, 1984.

FINANCIAL SERVICES INDUSTRY

Two bills enacted during the past two Congresses, the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act, addressed a number of the structural, pricing, and competitive issues in the domestic financial services industry. However, there are additional complicated and controversial issues that remain as a result of the rapidly changing configuration of the financial services industry. These continuing changes call for a careful review and analysis by this Committee, with a view toward determining what legislative changes, if any, the Congress should be considering.

The Senate Banking Committee held 13 days of oversight hearings on April 6, 26, 27, May 3, 4, 20, June 7, 8, 9, 16, 21, 27, 29, 1983.

During the hearings, the Committee heard from representatives of the banking, thrift, securities, and financial services industries, as well as Federal regulators, consumer groups, and academicians.

These hearings, which were very well attended by the members of the Committee, and were of great interest to the public in general, set in motion events that eventually led to a reported bill S. 2851, The Financial Services Competitive Equity Act.

INTERNATIONAL MONETARY FUND GOLD RESERVES

On June 6, 1983, the Senate Banking Committee held a hearing on the gold holdings of the International Monetary Fund [IMF].

The gold held by the IMF is legally owned by the institution and was obtained primarily from payment by members of the reserve portion of their quota subscriptions prior to the 1978 amendment of the IMF Articles of Agreement. Under the current IMF provisions, gold no longer plays its earlier central role in international monetary arrangements for the IMF, but still represents the IMF's basic reserve available to satisfy creditors' claims on the Fund and to replenish the IMF's currency resources.

At present, all IMF assets, including the Fund's gold, serve as a backing for creditors' claims on the IMF. In the event that creditors sought to encash their claims to meet their balance of payments financing needs and the IMF's available usable currency resources were inadequate, the Fund would be able as a last resort to mobilize the gold to acquire the necessary currencies. Therefore legislation has been introduced that would authorize the U.S. contribution to an increase in IMF resources (S. 695) to help relieve some of the problems of the international debt.

ENFORCEMENT OF THE EXPORT CONTROL ENFORCEMENT ACT

During the 98th Congress, the Committee devoted considerable attention to the amendment and renewal of the Export Administration Act of 1979. This is the law that authorizes the President to control exports for reasons of national security, foreign policy, and short supply. The law also prohibits any participation in, or support for, foreign boycotts designed to influence U.S. foreign policy or affect U.S. foreign policy interests.

The Committee has been concerned that our export control policies have been unsuccessful in the past in achieving their purposes, particularly the goal of keeping sensitive goods and technologies out of the hands of our potential adversaries. At the same time these policies have too frequently imposed unnecessary burdens on U.S. exporters.

In November 1983, while the Export Administration Act was still under review by the Congress, the U.S. Customs Service succeeded in stopping a shipment of approximately 50 tons of sensitive goods and technologies on its way to the Soviet Union. This turned out to be the largest known diversion of controlled items to the Soviet Union in history. What appeared most distressing about this ship-

ment was that virtually all of the items in the shipment had been licensed for export by the Department of Commerce.

On April 2, 1984, the Committee held an oversight hearing on this case. The purpose was to discover what had gone wrong in our licensing system and learn what might be done to prevent a recurrence of such a massive diversion. Testimony was received from witnesses representing three Government agencies involved with national security export controls: the Departments of Commerce, Defense, and the U.S. Customs Service. The Committee focused on the inexplicable inaction of the Commerce Department over a period of several months after learning that the recipient of sensitive U.S. technologies was using them for illegitimate purposes. The Committee also noted the unprecedented cooperation from European governments, which made possible the capture of the shipment en route to the Soviet Union as it transited their countries.

The hearing assisted the Committee in its preparations for conference with the House of Representatives on renewal of the Export Administration Act.

FEDERAL RESERVE PRICING POLICY ON CHECK CLEARING SERVICES

On April 11, 1984, the full Committee held an oversight hearing to review developments over the past 3 years regarding the pricing of services at Federal Reserve district banks. Representatives from the General Accounting Office and executive officers from various banks were asked to provide an analysis of the progress the Federal Reserve has made toward pricing to cover all check clearing costs and to assess certain Federal Reserve actions that have been questioned by its private sector competitors.

Before the Monetary Control Act of 1980 was passed, the Federal Reserve provided check clearing services without charge to its member banks. Following the act's enactment, direct competition between the Federal Reserve and private check clearing institutions has raised some controversies.

Certain competitors of the Federal Reserve have suggested that competition with the Fed may not be possible, given the unique and privileged status of the Fed as both the regulator and dominant provider of services. Another line of argument leads to the conclusion that the Government should not be competing in the activities that the private sector can handle adequately.

On the other side of the argument is the necessity for the Fed to retain an active operational role to assure the complete reliability and safety for the system of payments processing. Arguably the risk of financial disruption could arise, assuming the Fed were removed from payments processing, if the private correspondents refused to handle items drawn against other institutions whose solvency was rumored to be in doubt. Another point brought up during the hearing was as long as the Fed's operating efficiency continues to match or exceed that of the private sector, then it is entirely reasonable for them to continue operating at the present scale.

Oversight Activities Originating in the Subcommittee on International Finance and Monetary Policy

INTERNATIONAL DEBT

The international debt crisis reached its peak in 1983. The debt of the less developed countries to Western commercial banks approached $300 billion, with the lion's share, $100 billion, owed to U.S. banks. By 1983, service on much of this debt was in arrears, and the commercial banks were in the process of rescheduling much of the total.

It was clear that the International Monetary Fund would have to play a large role in the process of resolving this crisis. It was apparent, however, that IMF resources had been allowed to diminish from their levels two decades earlier, when they equaled 12 percent of world imports, to a point where they only equaled 3.8 percent in 1982. The major industrial powers agreed to increase IMF quotas by 47.5 percent and the General Arrangements to Borrow (controlled by the 10 major Western industrial nations) by a like amount.

On February 14, 15, and 17, 1983, the Committee heard testimony from the Secretary of the Treasury, Donald Regan; the Chairman of the Federal Reserve Board, Paul Volcker; the Comptroller of the Currency, Todd Conover; and the Chairman of the Federal Deposit Insurance Corporation, William Isaac, as well as a distinguished group of bankers and private analysts. The Committee heard testimony that the crisis was grave and the proposed quota increases were indeed justified. But it also heard arguments that certain regulatory reforms were necessary in the supervision of banks making large balance of payments loans to sovereign borrowers if this crisis was not to be repeated a few years hence. The quota increases as well as the regulatory reforms were addressed in subsequent legislation, S. 695, which was passed by the Senate on June 7 and signed into law as part of Public Law 98-181 on November 30, 1983.

FOREIGN INDUSTRIAL TARGETING

Foreign industrial targeting has been a problem which the United States has increasingly had to deal with over the past decade. The major trade competitors of the United States, particularly the Japanese, have targeted particular industrial sectors for intense, often subsidized, competition.

The question which the Committee addressed on July 7, 1983, in Philadelphia, PA, was what the nature of the U.S. response to such industrial targeting should be. The Committee heard testimony from Allan I. Mendelowitz, Associate Director, National Security and International Affairs Division, U.S. General Accounting Office;

Kenneth McLennan, vice president and director of industrial studies, Committee for Economic Development; Dr. Paul A. Tiffany, assistant professor of management, the Wharton School, University of Pennsylvania; Solomon Chaikin, president, International Ladies' Garment Workers Union; and John Latona, vice president-law, Houdaille Industries, Inc.

The thrust of the testimony which the Committee heard was that the United States already has an industrial policy, but it is one which is the sum total of a series of discrete tax and spending decisions, with no comprehensive industrial strategy behind it. While it would be wrong to push the United States into a centralized, planned economic structure, it is important to craft our import relief and economic revitalization legislation so that industries affected by foreign industrial targeting can more adequately respond to the challenge.

EXPORT-IMPORT BANK PROPOSAL OF CREDIT TO BRAZIL AND MEXICO

The Export-Import Bank plays an important role in supporting U.S. exports. This role is particularly crucial in facilitating U.S. export sales that are adversely affected by market irregularities or temporary abnormal circumstances and, therefore, might not otherwise occur.

On August 17, 1983, Eximbank President William Draper notified the Senate of a special Eximbank loan guarantee program developed in response to the international payments problems of Brazil and Mexico and the subsequent precipitous decline in United States exports to these countries. Due to the magnitude of the proposed guarantee programs—$1.5 billion to facilitate United States exports to Brazil and $500 million for exports to Mexico—and concern that required congressional oversight procedures for such projects might be inadequate, the Subcommittee on International Finance and Monetary Policy held an oversight hearing on September 14, 1983.

In addition to testimony from Eximbank President Draper, the Subcommittee received testimony from representatives of the Departments of Commerce and the Treasury. It was made clear that Mexico's proximity to the United States and its traditional role as our third largest export market make conditions in Mexico of profound importance. United States interests in stability in Brazil, the ninth largest economy in the world, were also emphasized.

The Subcommittee did find that charter provisions were not clear in defining congressional oversight procedures for Bank programs of this nature. This problem was subsequently addressed by legislation originating in the Committee to amend and reauthorize the Eximbank charter (Public Law 98-181).

THE ARGENTINIAN DEBT

The debt crisis of 1983 continued into the following year, but the major focus of concern shifted from Mexico and Brazil to other high debt countries, particularly Argentina. Argentinian debt to

private commercial banks totaled $40 billion, with more than a third of that owed to United States banks.

Early in 1984 the military junta was ousted in Argentina, and a new democratic regime replaced it. That regime, however, had great difficulty in imposing the sort of austerity which was required as a precondition for an IMF adjustment program. But in the absence of an Argentinian agreement with the IMF, commercial banks were reluctant to reschedule the outstanding debt into a more manageable repayment program. On March 30, 1984, four Latin nations, Brazil, Mexico, Columbia, and Venezuela, loaned Argentina $300 million to help that regime stay current on its debt service. For its part, the United States Government refused to extend any credit in the absence of Argentina's agreement with the IMF on a letter of intent for an adjustment program. The United States Government did, however, promise to extend an Exchange Stabilization Fund bridge loan to Argentina in order to pay back its four Latin creditors as soon as Argentina and the IMF successfully concluded their negotiations regarding an adjustment program.

On May 3, 1984, the Committee heard from David C. Mulford, Assistant Secretary for International Affairs, Department of Treasury; Anthony M. Solomon, President, Federal Reserve Bank of New York, and Joseph F. Dennin, Acting Assistant Secretary for International Economic Policy, Department of Commerce, regarding the seriousness of the Argentinian and larger Latin debt problem and the legitimacy of the United States pledge to provide an Exchange Stabilization Fund bridge loan contingent on future Argentinian performance. No legislation resulted from this hearing, but important points were clarified regarding the purpose and legal parameters of the Exchange Stabilization Fund. Such information could be the possible basis for future legislation. The Committee also received valuable information which updated its knowledge of the Latin debt crisis and its impact on the U.S. banks and economy.

INTERNATIONAL COMPETITIVE EFFECTS OF THE HIGH VALUE OF THE DOLLAR

The effect of the dollar's value on U.S. trade competitiveness has been a major source of debate during the 98th Congress. The dollar's value has risen more than 40 percent on a trade-weighted basis since its low point at the beginning of this decade. Many economists have argued that it is currently overvalued by as much as 25 percent, which, they argue, is the equivalent of a 25-percent tax on U.S. exports and a 25-percent subsidy for U.S. imports. 1984 is predicted to be a record year for the U.S. trade deficit, with U.S. merchandise trade in the neighborhood of $120 billion in the red and the balance of payments amounting to a negative $80 billion. Both those figures are double that of 1983, which was also a year of record deficits.

The Committee heard testimony from Martin Feldstein, Chairman, Council of Economic Advisers; R. T. McNamar, Deputy Secretary, Department of the Treasury; C. Fred Bergsten, director, Institute for International Economics; H. Robert Heller, vice president

for international economics, Bank of America; and Allan I. Mendelowitz, Associate Director, International Division, U.S. General Accounting Office, on June 6, 1984, and from Paul Volcker, Chairman of the Board of Governors, Federal Reserve System, on June 14, 1984.

The administration spokesman played down the impact of the dollar on the trade deficit, pointing to such factors as the attractiveness of the U.S. market for investment purposes, the LDC debt crisis, and the impact of the rapid U.S. recovery combined with the slow European recovery and negative LDC growth, as equally important determinants of the trade deficit. Consensus was reached that the most critical policy step which could be taken to relieve the pressure on the dollar would be congressional action to reduce the budget deficit, not only in the short run but also in the so-called outyears. Concern was also expressed about the nature of the downward adjustment, which inevitably must occur with regard to the dollar's value. There was agreement that if the impact on inflation and on U.S. economic growth were not to be painful and costly, the adjustment must occur with a gradual downward slope rather than a precipitous drop. There was agreement that the downward adjustment, in turn, would be greatly affected by the market's reading not only of congressional intentions but also its success regarding the budget deficit.

Oversight Activities Originating in the Subcommittee on Securities

THE SEC'S INVESTIGATION OF THOMAS REED

On March 22, 1983, the Subcommittee on Securities held a hearing on the investigation of Thomas Reed. Questions were raised through countless newspaper articles and TV news programs as to whether or not Thomas Reed received "special treatment" by the SEC when they investigated him for engaging in insider trading.

Mr. Reed is alleged to have traded securities options—by use of what is generally termed "inside trading information" as a result of his father's position on the board of a company, Amax. When another corporation indicated its desire to acquire Amax, Reed was able, with an investment of some $3,125 in a period of 48 hours, to see the options he purchased rise in value, so that approximately $429,000 inured to his benefit.

The hearing record concludes that Mr. Reed did not receive preferential treatment.

SOUTHLAND CORPORATION INVESTIGATION

Senator Alfonse M. D'Amato, chairman of the Subcommittee on Securities held a hearing on June 28, 1983, to examine John M. Fedders, Director of the SEC's Division of Enforcement, role in the internal ethical review conducted by the Southland Corp. in 1977. Prior to becoming Director of the SEC's Division of Enforcement in 1981, Mr. Fedders was a partner in the Washington law firm of Arnold & Porter. Last month the Southland Corp., one of its executives, and a former New York City Council member were indicted by a Federal grand jury for a bribery and coverup conspiracy, which allegedly occurred during the time of Southland's internal ethical review.

Senator D'Amato concluded that, based on the hearing record, it did not appear that Mr. Fedders was involved in any malfeasance.

FRAUD AND ABUSE IN THE "HOT ISSUES" AND "PENNY STOCK" MARKETS

Crimes and violations deprive thousands of innocent investors of hundreds of millions of dollars and, in many cases, of their entire life savings. On December 15, 1983, a hearing was held by the Subcommittee on Securities to examine the damage and credibility of legitimate brokers, dealers, and underwriters, that cast doubt on the integrity of the stock market as a whole.

The potential of a hearing such as this for educating the public about how they can better protect themselves from these unscrupu-

lous insiders and broker-dealers is enormous. These people prey on the public impulse to get in on the ground floor of the next Apple computer. This impulse seems to have been particularly strong recently, owing in part to the bull market, when everything seemed to be going up, and in part to the publicity, mostly favorable, concerning new high technology companies, in which fortunes have been made in very short periods of time.

This hearing is to explore the question of whether the present rules of excluding the disreputable are adequate.

Oversight Activities Originating in the Subcommittee on Economic Policy

CONDUCT OF MONETARY POLICY

On July 28, 1984, Senator Gorton, chairman of the Subcommittee on Economic Policy, held an oversight hearing in conjunction with the regular monetary policy hearings held by the full Committee. This hearing was for a resolution on the coordination of monetary and fiscal policy.

This was pursuant to a provision of the Budget Resolution for fiscal year 1984 (H. Con. Res. 91, section 6). Hearings on this subject were held before the full Committee in conjunction with the hearings on the Second Monetary Policy Report for 1983 on July 21, as well as before the Subcommittee on Economic Policy on July 28.

Witnesses before the full Committee were Federal Reserve Board Chairman Paul A. Volcker; Martin Feldstein, Chairman of the President's Council of Economic Advisers; Beryl Sprinkel, Under Secretary for Monetary Affairs of the Department of the Treasury; Alan Blinder, professor of economics, Princeton University; and A. James Meigs, senior vice president and chief economist, First Interstate Bank of California. Witnessess before the Subcommittee were Senator Daniel P. Moynihan and Federal Reserve Board Chairman Volcker.

As a result of these hearings, the Committee reported S. Con. Res. 73 (S. Rept. 98-263) on October 5, 1983. This resolution urged the Federal Reserve, inter alia, to continue to guide its behavior by reference to monetary and credit aggregates and to avoid attempts to target interest rates, and to strive for greater stability in the growth rates of the monetary aggregates. It also instructed the Federal Reserve to include an analysis of the impact of Federal budget deficits on credit markets and the economy in its regular monetary policy reports to Congress.

Oversight Activities Originating in the Subcommittee on Federal Credit Programs

BUDGET TREATMENT OF FEDERAL CREDIT PROGRAMS

On March 20, 1984, the Subcommittee on Federal Credit Programs held a hearing on the budget treatment of Federal credit programs.

Dr. Rudolf Penner, Director of the Congressional Budget Office, announced the publication of a new CBO study entitled "New Approaches to the Budgetary Treatment of Federal Credit Assistance." This study discusses three general approaches to improving the budgetary treatment of the costs of Federal loans and loan guarantees.

Dr. Penner's testimony focused on the shortcomings of current budgetary practices as they relate to the Nation's 424 Federal loan and loan guarantee programs. As Dr. Penner noted, the current treatment of the cost of these Federal credit activities is incomplete and frequently misleading, and does not provide Congress with the information it needs to compare Federal credit programs with one another or with Federal spending programs in a meaningful way. Congress cannot rationally set priorities and allocate scarce Federal resources unless it can achieve meaningful cost comparisons among Federal credit activities and other Federal activities.

As requested by the Subcommittee, Dr. Penner focused on one of the remedies for inadequate budgeting proposed in the CBO report—the so-called "Market Plan." According to Dr. Penner, the "Market Plan" would identify the subsidy cost—or present value of the subsidy—in direct Federal loans and loan guarantees, and would bring that cost into the Federal budget. Loan subsidy costs would be identified by selling federally originated loans to private investors, and guarantee costs would be revealed by Federal purchases of private insurance policies to "reinsure" these guarantees. Direct appropriations would be required to cover and limit these costs.

The "Market Plan" formed the basis of Senator Trible's bill S. 2500, the "Credit Accounting Reform Act of 1984."

Although he had some reservations about applying "market principles" to establish the subsidy cost of all Federal programs, Dr. Penner was quite sympathetic to the idea of market valuation of subsidies, and appeared to believe this would be a substantial improvement over the current budget treatment of Federal credit programs.

Oversight Activities Originating in the Subcommittee on Housing and Urban Affairs

SECONDARY MORTGAGE MARKET

On May 5, 1983, Senator John Tower, chairman of the Subcommittee on Housing and Urban Affairs, held an oversight hearing to discuss a number of proposals for changes in the charter of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

The Committee invited a distinguished panel of witnesses to help evaluate the proposals in light of the increased demand in services of the secondary market stemming from major changes in the financial community, the need to facilitate the housing recovery, and a desire to foster the growing, private participation in the secondary mortgage market.

As a result of this hearing, Senators Tower, Garn, and Proxmire introduced two bills, S. 1821, the Secondary Mortgage Market Enhancement Act and S. 1822, the Trust for Investment in Mortgages Act. These companion bills were designed to improve the ability of the private sector to meet the capital needs of housing finance. S. 1822 was referred to the Finance Committee and a hearing was held on November 4, 1983. Hearings were held on S. 1821 in the Banking Committee on the bill and it was reported under a new number S. 2040. This bill passed the Senate on November 17, 1983. The Senate vitiated previous and passed bill amended on February 9, 1984. The House passed the bill with an amendment on September 11, 1984, which the Senate concurred on September 26, 1984. This legislation was then signed by the President on October 3, 1984 and became Public Law 98-440.

Oversight Activities Originating in the Subcommittee on Consumer Affairs

CONSUMER CREDIT INTEREST RATES

On March 17, 1983, Senator Paula Hawkins, chairlady of the Subcommittee on Consumer Affairs, held an oversight hearing to determine why consumer credit rates continue to remain high in the face of the dramatic decline in the inflation and interest rates.

Consumers in America have become disillusioned because of the huge gap between the interest costs they pay and the lower prime rate that has fallen from 21 to 10.5 percent. Charges are being made that the large banks are keeping interest rates high to cover their losses on bad international and domestic loans.

The Subcommittee invited a distinguished panel of witnesses to discuss the relationship between interest rates on consumer loans and the open market rates on instruments such as commercial paper and the U.S. Treasury bills, which provide an alternative investment to loans for most financial institutions.

Several witnesses pointed out that depository lenders must now pay a higher competitive and deregulated rate to attract deposits, and discussed various costs built into the rates charged on consumer loans.

CREDIT CARD FRAUD

On May 18, 1983, Senator Paula Hawkins, chairlady of the Subcommittee on Consumer Affairs held an oversight hearing to explore issues caused by rising credit card fraud, especially its impact on the cost and availability of consumer credit. Credit card fraud, which can take many different forms, is growing rapidly and exceeds $1 billion a year.

In addition, one purpose of the hearing is to determine whether the two principal statutes addressing the problem, the Truth-in-Lending Act and the Electronic Fund Transfer Act, adequately protect consumers and the institutions that issue credit and debit cards from fraud and abuse.

The distinguished panel of witnesses that appeared for this hearing helped to indicate the magnitude of these problems and suggested ways that can better protect consumers and credit card issuers. Many helpful comments from witnesses often lead to legislative solutions.

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